

State of Montana
Office of the Legislative Auditor
REPORT TO THE LEGISLATURE
JUDICIAL BRANCH

**Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1986**

**This report contains recommendations for
improving compliance and management
controls. These recommendations include:**

- ▶ **recording revenues and expenditures
associated with the Judges' Retirement
System**
- ▶ **improving internal controls**

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Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620**



FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant impact on the financial schedules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

January 1987

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL-COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch for the two fiscal years ending June 30, 1986. Included in this report are recommendations concerning the Montana Judges' Retirement System and improving internal controls.

We thank the Chief Justice, the court administrator, and the Judicial Branch personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

JUDICIAL BRANCH

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1986

Audit staff involved in the Judicial Branch audit include: Mary Bryson, Brian Zwang, and Bill Hargas.

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ELECTIVE AND ADMINISTRATIVE OFFICIALS

JUDICIAL BRANCH

STATE OF MONTANA

Supreme Court

Jean A. Turnage	Chief Justice
L.C. Gulbrandson	Associate Justice
John C. Harrison	Associate Justice
William E. Hunt, Sr.	Associate Justice
Frank B. Morrison	Associate Justice
John C. Sheehy	Associate Justice
Fred J. Weber	Associate Justice

Administrative Officials

Jim Oppedahl	Court Administrator
Ethel Harrison	Clerk of the Supreme Court
Judith Meadows	State Law Librarian

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation #1

The Judicial Branch properly record revenue and the costs associated with the Montana Judges' Retirement System in its accounting records.

4

Agency Response: Concur. See page 21.

Recommendation #2

The Judicial Branch adopt procedures to ensure that expenditures for personal services are charged to the correct program.

5

Agency Response: Concur. See page 21.

Recommendation #3

The Judicial Branch establish:

A. Procedures to ensure adequate segregation of functions.

8

Agency Response: Concur. See page 21.

B. Adequate supervisory review and approval of employee time sheets.

8

Agency Response: Concur. See page 21.

C. Procedures to deposit receipts in accordance with deposit requirements.

8

Agency Response: Concur. See page 21.

Recommendation #4

The Judicial Branch record law library books as an asset on the state's accounting records.

8

Agency Response: Concur. See page 21.

INTRODUCTION

We performed a financial-compliance audit of the Judicial Branch for fiscal years 1984-85 and 1985-86. The objectives of the audit were to: 1) determine if the financial schedules present fairly the results of operations for the two fiscal years ending June 30, 1986; 2) determine compliance with applicable laws and regulations which could have a significant effect on the financial schedules; and 3) make recommendations for improvements in the management and internal controls of the Judicial Branch.

This report contains four recommendations to the Judicial Branch. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the branch programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

BACKGROUND

The Constitution of the State of Montana vests the judicial power of the state in one Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court, consisting of one chief justice and six associate justices, has appellate jurisdiction, and may issue, hear, and determine appropriate writs. The Supreme Court also has general supervisory control over all other courts and may make rules governing appellate practice and procedure for all other courts, admission to the bar, and conduct of its members. The rules of procedure are subject to approval by the Legislature in either of the two sessions following promulgation.

Supreme Court justices and district court judges are elected to office on a non-partisan ballot. Their terms of office and the procedure for filling vacancies on the court are established in the

Constitution and by statute. The Legislature determines salaries for the justices and district court judges.

The Judicial Branch consists of the Supreme Court, the Court Administrator, the Clerk of Court, the State Law Library, and the Water Courts. The chief justice is the head of the Judicial Branch. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The court has authority to determine its own internal procedures and policies. The court provides general supervision of the district courts and the Montana Medical Legal Panel, and pays the salaries of the district court judges.

The Judicial Branch is divided into five programs for fiscal management.

1. The Supreme Court program consists of the costs of operation of the Supreme Court.
2. The boards and commissions program accounts for expenditures for the boards and commissions established either by statute or the Supreme Court to perform various services required to support the judiciary within the state of Montana.
3. The law library program accounts for the operation of the State Law Library of Montana. The library is maintained for use by members of the Supreme Court, Legislature, state officials, and state employees. The library is also available to members of the bar and the general public.
4. The district court program accounts for the payment of salaries and travel expenses for district court judges.
5. The water courts supervision program accounts for the expenditures of the water courts.

MONTANA JUDGES' RETIREMENT SYSTEM

Recording Revenues and Expenditures

The Judicial Branch receives money from district court fees and Supreme Court fees. By statute, part of these moneys help fund the Montana Judges' Retirement System (MJRS). The Judicial

Branch deposits these moneys directly in the MJRS fund at the Public Employees' Retirement Division (PERD), Department of Administration. The accounting procedure used by the branch satisfies section 19-5-404, MCA, which describes the state's contributions to the retirement system and the distribution of district court fees.

Under the current procedure, the Judicial Branch does not record any of the fee revenue it collects and remits to PERD. In addition, the cost of funding the retirement system is not recorded by the Judicial Branch. The Montana Judges' Retirement System was established for district court judges and Supreme Court justices. Because both judges and justices are employees of the Judicial Branch, the Judicial Branch is the logical agency to account for the fee revenue and reflect the costs associated with the MJRS. The Judicial Branch could properly account for the revenue and associated costs in compliance with the statute.

In the last two audit reports we recommended the revenue and costs associated with the MJRS be properly recorded in the accounting records. The Department of Administration informed the Judicial Branch that the transactions between the branch and PERD represented revenues and expenditures to the MJRS, not transfers. Consequently, the branch began direct deposit to the MJRS in fiscal year 1985-86. As a result of the branches' procedures, revenue of approximately \$607,600 in fiscal year 1984-85 and \$569,600 in 1985-86 is not recorded by the state. The corresponding pension cost is not recorded by the Judicial Branch. This results in an understatement of pension costs in fiscal years 1984-85 and 1985-86 of approximately \$607,600 and \$569,600, respectively. Properly recording the revenue and associated pension cost would require General Fund appropriation authority, but no additional General Fund money. The General Fund appropriation authority could be provided through a statutory appropriation.

RECOMMENDATION #1

WE RECOMMEND THE JUDICIAL BRANCH PROPERLY RECORD REVENUE AND THE COSTS ASSOCIATED WITH THE MONTANA JUDGES' RETIREMENT SYSTEM IN ITS ACCOUNTING RECORDS.

Funding Level

Supreme Court justices and district court judges are members of the Montana Judges' Retirement System (MJRS). This retirement system, established in 1967, currently has 41 contributing members.

The MJRS is funded by: 1) member contributions (which vary from 6 to 7 percent of a judge's salary); 2) state of Montana contributions (6 percent of member salaries); 3) a percentage of district court fees up to 31 percent of member salaries; and 4) 25 percent of selected Supreme Court fees.

During our audit we determined that there was a shortfall in funding for the MJRS for the two fiscal years ended June 30, 1986. This occurred when the percentage of district court fees collected which was dedicated to funding the MJRS was less than 31 percent of member salaries. Judicial Branch personnel indicated the dollar amount of district court fees collected was less than anticipated. Also four additional district court judges were added in January of 1985, which made reaching the 31 percent funding requirement even more difficult. The shortfall in funding was disclosed in the last two audit reports issued for the Judicial Branch. The issue of inadequate funding for the MJRS was addressed by the 1983 Legislature. Legislation passed which amended sections 19-5-402 and 19-5-404, MCA, to increase contributions to the MJRS.

The Public Employees' Retirement Division (PERD) audit report for the two fiscal years ended June 30, 1986, indicates the MJRS received \$26,287 less than anticipated in fiscal year 1984-85 and \$77,037 less than anticipated in fiscal year 1985-86. This represents a 4 percent shortfall in court fee revenue in fiscal year

1984-85 and a 15 percent shortfall in fiscal year 1985-86. A PERD official indicated that the shortfall in funding may be temporary. If the shortfall continues through the next biennium PERD intends to assess the impact on the funding for the MJRS and consider whether legislation for additional funding should be proposed. We make no recommendation regarding this issue at this time.

PAYROLL EXPENSES

While performing audit work in the payroll area, we identified three employees in fiscal year 1984-85 whose payroll expenses were charged to an incorrect program. In each instance the employees job duties were not related to the program charged. For example, one employee's payroll expenses were charged to the Water Courts Supervision program while their duties related solely to the Boards and Commissions program.

In fiscal year 1985-86, we noted the same problem for two employees. Judicial Branch personnel stated that the duties for some employees have changed from one program to another since they were originally hired. They overlooked the fact that the programs charged did not change to correspond to the employees change in duties.

As a result of charging incorrect programs for payroll expenses, General Fund expenditures are understated by \$21,715 in fiscal year 1984-85 and \$18,721 in 1985-86. Special Revenue Fund expenditures are overstated by the same amounts.

RECOMMENDATION #2

WE RECOMMEND THE JUDICIAL BRANCH ADOPT PROCEDURES TO ENSURE THAT EXPENDITURES FOR PERSONAL SERVICES ARE CHARGED TO THE CORRECT PROGRAM.

INTERNAL CONTROLS

The management of the Judicial Branch is responsible for establishing and maintaining a system of internal controls. The objectives of an internal control system are to provide management

with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies.

From discussions with Judicial Branch personnel, as well as findings throughout the audit, we found the following weaknesses in the internal control system of the Judicial Branch.

Segregation of Duties

We noted two situations where inadequate segregation of functions exists. Our review of the payroll function of the Judicial Branch disclosed that one person prepares and distributes the payroll, and in some instances approves employee time sheets. Secondly, we found that in the Clerk of Court's office, the same person receives, deposits, and records receipts on the state's accounting records.

Segregation of the approval, recording, acquisition, and safekeeping functions is a fundamental control to ensure that errors or irregularities in accounting records and misuse or misappropriation of assets are minimized. Without an adequate segregation of these functions there is little assurance that accounting errors or irregularities will be detected on a timely basis or that assets are properly safeguarded and accounted for.

It is not necessary to have a separate employee handle each of these functions. A division of these responsibilities between employees could add to the security and control over both the payroll and cash receipts functions. It is possible to obtain adequate segregation of functions with current level staff and no additional cost.

Supervisory Approval of Time Sheets

During the course of our audit we noted the following conditions with respect to supervisory approval of employee time sheets:

1. Time sheets for some of the law clerks were approved by the payroll clerk, rather than the employees' supervisor.
2. Several time sheets for various other employees lacked supervisory approval.

State policy requires appropriate supervisory personnel to approve all time summaries submitted by employees. This policy was established to ensure state employees are paid for actual hours worked. In the last two audit reports issued we recommended the Judicial Branch ensure employee time summaries were signed by the employee and approved by appropriate supervisory personnel. The branch has not taken adequate corrective action to ensure compliance with state policy.

Timely Deposits

State law requires that all moneys received shall be deposited either with the Treasury Bureau of the Department of Administration or in a depository approved by the Treasury Bureau, each day when the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. During our audit, we noted instances when the Clerk of Court's office received daily receipts exceeding \$500 over a three day period, and did not make daily deposits as required.

Judicial Branch personnel indicated that often they receive a large number of receipts in a day. They record each receipt (by remitter) in their manual receipt records and in total on the deposit ticket. This process is time consuming, and often leaves them no time to deposit the funds until several days later. To relieve this problem, the Judicial Branch could establish procedures which would provide for daily deposit of collections regardless of dollar amount. This would allow the timely deposit of the funds, and the appropriate recording of remitters and distribution of the funds.

RECOMMENDATION #3

WE RECOMMEND THE JUDICIAL BRANCH ESTABLISH:

- A. PROCEDURES TO ENSURE ADEQUATE SEGREGATION OF FUNCTIONS.
- B. ADEQUATE SUPERVISORY REVIEW AND APPROVAL OF EMPLOYEE TIME SHEETS.
- C. PROCEDURES TO DEPOSIT RECEIPTS IN ACCORDANCE WITH DEPOSIT REQUIREMENTS.

FIXED ASSETS

The Judicial Branch is responsible for maintaining the State Law Library. While performing audit tests of fixed assets, we determined the books at the State Law Library have not been recorded in the accounting records of the Judicial Branch. State policy requires recording library collections as fixed assets.

Law Library personnel indicated that recording the library books on the Statewide Budgeting and Accounting System (SBAS) would be a very time consuming task because the original cost for most volumes is not known. There are approximately 95,000 volumes in the library, purchased over a period of many years, at prices ranging from \$25 to \$200. Also there are numerous additions and deletions made throughout the year.

State policy provides some guidance on valuation procedures for fixed assets and the Law Library could employ various methods for establishing an asset value. We agree that the task may require substantial staff resources; however, the library collection represents a material and valuable unrecorded asset. We noted the Law Library purchased books and library materials totaling \$209,839 in fiscal year 1984-85 and \$215,503 in fiscal year 1985-86. The price for the purchased books was known, however they were not recorded as assets on SBAS.

RECOMMENDATION #4

WE RECOMMEND THE JUDICIAL BRANCH RECORD LAW LIBRARY BOOKS AS AN ASSET ON THE STATE'S ACCOUNTING RECORDS.

PRIOR AUDIT RECOMMENDATIONS

The previous audit report contained ten recommendations still applicable to the Judicial Branch. The branch has implemented six of these recommendations, partially implemented three, and has not implemented one.

The recommendations for which the branch has not taken adequate corrective action concern the Judges' Retirement System funding and recording of revenue and expenditures (pages 2 and 3), charging expenditures to the proper program (page 5), and establishing procedures for supervisory approval of employee time sheets (page 6).

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented. The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments.

We issued an adverse opinion on the Schedule of Changes in Fund Balance, Schedule of Revenues - Estimated and Actual, and the Schedules of Budgeted Program Expenditures By Object and Fund presented because revenues and expenditures related to the Judges' Retirement System are not recorded. The schedules are not fairly stated and the user of this SBAS information cannot rely on the information presented.

STATE OF MONTANA

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HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Judicial Branch for each of the two fiscal years ended June 30, 1985, and 1986, as shown on pages 12 through 19. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

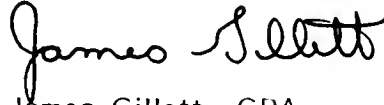
As described in Note 1 to the financial schedules, the Judicial Branch financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The Judicial Branch does not record all activity associated with the Montana Judges' Retirement System. As a result, General Fund revenues and expenditures for fiscal years 1984-85 and 1985-86 are understated by approximately \$607,561 and \$569,601, respectively.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the Schedule of Changes in Fund Balances, the Schedules of Budgeted Revenue - Estimated and Actual, and the Schedules of Budgeted Program Expenditures by

Object and Fund do not present fairly the results of operations and changes in fund balances of the Judicial Branch for the fiscal years ending June 30, 1985, and 1986, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett". The signature is written in a cursive, flowing style with a large initial "J" and "G".

James Gillett, CPA
Deputy Legislative Auditor

November 28, 1986

JUDICIAL BRANCH
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>General Fund</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1984	\$ -0-	\$(19,582)
ADDITIONS		
<u>Fiscal Year 1984-85</u>		
Budgeted Revenue	113,416	13,778
Prior Year Revenue Adjustments	(20)	(1,000)
Support From State of Montana	3,957,839	
Cash Transfers In		358,232
<u>Fiscal Year 1985-86</u>		
Budgeted Revenue	128,843	96,856
Prior Year Revenue Adjustments	(63)	(22)
Support From State of Montana	4,111,682	
Cash Transfers In		<u>410,601</u>
Total Additions	<u>8,311,697</u>	<u>878,445</u>
REDUCTIONS		
<u>Fiscal Year 1984-85</u>		
Budgeted Expenditures	4,069,972	377,946
Prior Year Expenditure Adjustments	1,262	(92)
<u>Fiscal Year 1985-86</u>		
Budgeted Expenditures	4,223,720	433,520
Prior Year Expenditure Adjustments	<u>16,743</u>	<u>6,287</u>
Total Reductions	<u>8,311,697</u>	<u>817,661</u>
FUND BALANCE: June 30, 1986	\$ <u>-0-</u>	\$ <u>41,202</u> ¹

¹See footnote 5.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 19.

JUDICIAL BRANCH
SCHEDULE OF BUDGETED REVENUE - ESTIMATED & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>Licenses and Permits</u>	<u>Service Fees</u>	<u>Rent,Leases & Royalties</u>	<u>Grants,Gifts, & Donations</u>	<u>Miscellaneous</u>	<u>Federal Assistance</u>	<u>Total</u>
<u>Fiscal Year 1985-86</u>							
GENERAL FUND							
Estimated Revenue	\$55,000	\$ 636,997	\$ 750				\$ 692,747
Actual Revenue	<u>77,955</u>	<u>50,888</u>	<u>0</u>				<u>128,843</u>
Collections Over (Under) Estimate	<u>\$22,955</u>	<u>\$(586,109)¹</u>	<u>\$(750)</u>				<u>\$(563,904)</u>
SPECIAL REVENUE FUND							
Estimated Revenue		\$ 18,400		\$134,600			\$ 153,000
Actual Revenue		<u>21,856</u>		<u>75,000</u>			<u>96,856</u>
Collections Over (Under) Estimate		<u>\$ 3,456</u>		<u>\$(59,600)</u>			<u>\$(56,144)</u>
<u>Fiscal Year 1984-85</u>							
GENERAL FUND							
Estimated Revenue	\$55,000	\$ 46,500	\$700		\$10,500		\$ 112,700
Actual Revenue	<u>82,966</u>	<u>14,397</u>	<u>806</u>		<u>15,247</u>		<u>113,416</u>
Collections Over (Under) Estimate	<u>\$27,966</u>	<u>\$(32,103)</u>	<u>\$106</u>		<u>\$ 4,747</u>		<u>\$ 716</u>
SPECIAL REVENUE FUND							
Estimated Revenue					\$10,000	\$3,746	\$ 13,746
Actual Revenue					<u>10,032</u>	<u>3,746</u>	<u>13,778</u>
Collections Over (Under) Estimate					<u>\$ 32</u>	<u>\$ 0</u>	<u>\$ 32</u>

¹The 1985-86 Revenue Estimate for Service Fees includes an amount for district court fee collections. This revenue was not recorded by the Judicial Branch (see footnote 2).

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 19.

JUDICIAL BRANCH
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Supreme Court Operations	Boards and Commissions	Law Library	District Court Operations	Water Courts Supervision	Total
PERSONAL SERVICES						
Salaries	\$ 866,847	\$ 38,127	\$139,532	\$1,766,605	\$247,623	\$3,058,734
Other Compensation				43,898	77	43,975
Employee Benefits	140,859	8,243	28,785	262,287	50,456	490,630
Total	<u>1,007,706</u>	<u>46,370</u>	<u>168,317</u>	<u>2,072,790</u>	<u>298,156</u>	<u>3,593,339</u>
OPERATING EXPENSES						
Contracted Services	85,616	73,667	32,298	9,464	1,926	202,971
Supplies & Materials	31,401	10,992	14,674	5,923	14,461	77,451
Communications	31,536	6,332	12,579	624	35,799	86,870
Travel	22,698	24,192	2,617	108,756	5,264	163,527
Rent	90,559	979	65,947	135	32,112	189,732
Repair & Maintenance	6,829	233	6,372	6,276	4,853	24,563
Other Expenses	38,100	860	7,426	12,676	2,154	61,216
Total	<u>306,739</u>	<u>117,255</u>	<u>141,913</u>	<u>143,854</u>	<u>96,569</u>	<u>806,330</u>
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	29,119	756	215,538		12,158	257,571
Total	<u>29,119</u>	<u>756</u>	<u>215,538</u>		<u>12,158</u>	<u>257,571</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,343,564</u>	<u>\$164,381</u>	<u>\$525,768</u>	<u>\$2,216,644</u>	<u>\$406,883</u>	<u>\$4,657,240</u>
GENERAL FUND						
Budgeted	\$1,355,010	\$170,125	\$499,686	\$2,220,366		\$4,245,187
Actual	<u>1,343,564</u>	<u>164,381</u>	<u>499,131</u>	<u>2,216,644</u>		<u>4,223,720</u>
Unspent Budget Authority	<u>\$ 11,446</u>	<u>\$ 5,744</u>	<u>\$ 555</u>	<u>\$ 3,722</u>		<u>\$ 21,467</u>
SPECIAL REVENUE FUND						
Budgeted			\$158,321		\$563,260	\$ 721,581
Actual			<u>26,637</u>		<u>406,883</u>	<u>433,520</u>
Unspent Budget Authority			<u>\$131,684</u>		<u>\$156,377</u>	<u>\$ 288,061</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 19.

JUDICIAL BRANCH
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	<u>Supreme Court Operations</u>	<u>Boards and Commissions</u>	<u>Law Library</u>	<u>District Court Operations</u>	<u>Water Courts Supervision</u>	<u>Total</u>
PERSONAL SERVICES						
Salaries	\$ 847,664	\$ 67,331	\$115,591	\$1,617,870	\$208,866	\$2,857,322
Hourly Wages	31				212	243
Other Compensation				35,531		35,531
Employee Benefits	<u>135,711</u>	<u>13,044</u>	<u>23,981</u>	<u>240,854</u>	<u>41,408</u>	<u>454,998</u>
Total	<u>983,406</u>	<u>80,375</u>	<u>139,572</u>	<u>1,894,255</u>	<u>250,486</u>	<u>3,348,094</u>
OPERATING EXPENSES						
Contracted Services	46,022	59,715	18,183	5,030	2,341	131,291
Supplies & Materials	38,437	11,037	15,374	6,813	12,929	84,590
Communications	33,009	5,620	12,167	565	27,722	79,083
Travel	22,220	22,564	1,782	106,323	6,406	159,295
Rent	89,936	215	63,683		28,532	182,366
Repair & Maintenance	10,800		7,166	2,968	6,727	27,661
Other Expenses	<u>35,282</u>	<u>265</u>	<u>17,194</u>	<u>10,830</u>	<u>2,707</u>	<u>66,278</u>
Total	<u>275,706</u>	<u>99,416</u>	<u>135,549</u>	<u>132,529</u>	<u>87,364</u>	<u>730,564</u>
EQUIPMENT						
Equipment	<u>32,483</u>	<u>1,679</u>	<u>209,912</u>		<u>26,253</u>	<u>270,327</u>
Total	<u>32,483</u>	<u>1,679</u>	<u>209,912</u>		<u>26,253</u>	<u>270,327</u>
GRANTS						
From State Sources	<u>98,933</u>					<u>98,933</u>
Total	<u>98,933</u>					<u>98,933</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,390,528</u>	<u>\$181,470</u>	<u>\$485,033</u>	<u>\$2,026,784</u>	<u>\$364,103</u>	<u>\$4,447,918</u>
GENERAL FUND						
Budget	\$1,411,521	\$191,401	\$482,631	\$2,031,058		\$4,116,611
Actual	<u>1,390,528</u>	<u>177,724</u>	<u>474,936</u>	<u>2,026,784</u>		<u>4,069,972</u>
Unspent Budget Authority	<u>\$ 20,993</u>	<u>\$ 13,677</u>	<u>\$ 7,695</u>	<u>\$ 4,274</u>		<u>\$ 46,639</u>
SPECIAL REVENUE FUND						
Budget		\$ 3,746	\$ 29,708		\$599,204	\$ 632,658
Actual		<u>3,746</u>	<u>10,097</u>		<u>364,103</u>	<u>377,946</u>
Unspent Budget Authority		<u>\$ -0-</u>	<u>\$ 19,611</u>		<u>\$235,101</u>	<u>\$ 254,712</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 19.

JUDICIAL BRANCH
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Judicial Branch uses the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues under the modified accrual basis of accounting are recognized when measurable and available. "Available" means the revenue will be received soon enough to pay the liabilities of the current period.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the Judicial Branch:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Agency - accounts for assets held by a governmental unit in a trustee capacity, or as an agent, for individuals, private organizations, other governmental units, and/or other funds.

2. RETIREMENT SYSTEM REVENUES AND EXPENDITURES

Revenues and expenditures related to the Montana Judges' Retirement System (MJRS) are not recorded in the accounting records of the Judicial Branch. Current accounting procedures resulted in an understatement of General Fund revenues and expenditures of \$607,561 in fiscal year 1984-85 and \$569,601 in 1985-86.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) or the Montana Judge's Retirement System (MJRS). The branch's contributions to these plans are shown below:

	<u>Fiscal Year 1984-85</u>	<u>Fiscal Year 1985-86</u>
PERS	\$ 39,846	\$ 44,935
MJRS	<u>116,906</u>	<u>123,537</u>
Total	<u>\$156,752</u>	<u>\$168,472</u>

As stated in Footnote 2 costs of approximately \$607,561 for fiscal year 1984-85 and \$569,601 for fiscal year 1985-86 for providing the MJRS are not reflected in the amounts above as a result of current accounting procedures. The contribution source for these moneys is district court fees.

4. FIXED ASSETS

The Judicial Branch records assets on the state's Property and Accountability Management System (PAMS). A schedule of fixed asset additions and deletions for the two fiscal years ended June 30, 1985 is as follows:

JUNE 30, 1984 BALANCE	<u>\$515,671</u>
Additions:	
Fiscal Year 1984-85	291,058
Fiscal Year 1985-86	51,096
Deductions:	
Fiscal Year 1984-85	220,808
Fiscal Year 1985-86	4,580
JUNE 30, 1986 BALANCE	<u>\$632,437</u>

The Judicial Branch maintains the State Law Library. As of June 30, 1986 the books at the library were not recorded on PAMS or SBAS as fixed assets.

5. FUND BALANCE

A. General Fund

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule the General Fund beginning and ending fund balance will always be zero.

B. Special Revenue Fund

1. The branch administers the Water Courts portion of the state's water development program. Two other agencies operate the remainder of the program. The branch shares an accounting entity with the two other agencies.

In the Judicial Branch accounting records, the accounting entity for the program reflected a negative fund balance at July 1, 1984 (\$21,225), June 30, 1985 (\$27,004), and June 30, 1986 (\$25,509). This resulted because the branch recorded accrued expenditures for which no asset was established as the asset was recorded at one of the other agencies. The combined accounting entity reflects a positive fund balance.

2. In April 1986 the State Law Library received a private grant for the Helena FAXNET Project. The grant award of \$134,600 covers a two-year period. Of the \$134,600 the branch received \$75,000 on April 1, 1986. The remainder will be remitted by the grantor on a preestablished schedule. These financial schedules reflect a fund balance of \$66,144 at June 30, 1986.

6. VACATION AND SICK LEAVE

Employees of the branch accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules presented. Expenditures for termination pay are currently absorbed in the annual operational costs of the branch. At June 30, 1986, the branch has a predicted liability of \$37,425 for vacation leave and \$14,592 for sick leave.

AGENCY RESPONSE



Court Administration

The Supreme Court of Montana
ROOM 315 - JUSTICE BUILDING
HELENA, MONTANA 59620
TELEPHONE (406) 444-2621

RECEIVED

JAN 28 1987

January 28, 1987

MONTANA LEGISLATIVE AUDITOR

Mr. Scott Seacat
Legislative Auditor
Room 135 State Capitol
Helena, Montana 59620

Dear Mr. Seacat:

As requested by your January 15, 1987 letter, attached is our response to the report on the audit of the Judicial Branch.

We are ready to meet with the Audit Committee at their convenience in order to provide any other information that may be desired.

If anything further is needed, please feel free to contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jim Oppedahl", with a long horizontal flourish extending to the right.

Jim Oppedahl,
Court Administrator

SUPREME COURT REPLY
TO AUDIT REPORT OF JUNE 30, 1986

RECOMMENDATION #1

WE RECOMMEND THE JUDICIAL BRANCH PROPERLY RECORD REVENUE AND THE COSTS ASSOCIATED WITH MONTANA JUDGES' RETIREMENT SYSTEM IN ITS ACCOUNTING RECORDS.

Judicial Branch Response:

We concur, however, previous audit recommendations have included the stipulation that legislative action on section 19-5-404, MCA, was necessary to implement this recommendation. Legislative action is also necessary to establish statutory appropriation authority under Title 17.

RECOMMENDATION #2

WE RECOMMEND THE JUDICIAL BRANCH ADOPT PROCEDURES TO ENSURE THAT EXPENDITURES FOR PERSONAL SERVICES ARE CHARGED TO THE CORRECT PROGRAM.

Judicial Branch Response:

We concur and will do so.

RECOMMENDATION #3

WE RECOMMEND THE JUDICIAL BRANCH ESTABLISH:

- A. PROCEDURES TO ENSURE ADEQUATE SEGREGATION OF FUNCTIONS.
- B. ADEQUATE SUPERVISORY REVIEW AND APPROVAL OF EMPLOYEE TIME SHEETS.
- C. PROCEDURES TO DEPOSIT RECEIPTS IN ACCORDANCE WITH DEPOSIT REQUIREMENTS.

Judicial Branch Response:

- A. We concur and have implemented the recommendation.
- B. We concur and have implemented the recommendation.
- C. We concur and have implemented the recommendation.

RECOMMENDATION #4

WE RECOMMEND THE JUDICIAL BRANCH RECORD LAW LIBRARY BOOKS AS AN ASSET ON THE STATE'S ACCOUNTING RECORDS.

Judicial Branch Response:

We concur and will begin recording the books as an asset beginning in FY 1987. In FY 1988, the State Law Library will begin an evaluation of the entire collection, which will lead to an assessment of the collection's total value as a fixed asset.

